

Deregulation hard on rural Americans

Last month I had an opportunity to speak to the Western Conference of Public Service Commissioners about issues facing rural America as the electric utility industry changes. Because it is important for us to understand the issues our customers in rural areas are facing, I'd like to share some of this with you, too.

Nearly 75 percent of our more than 600 wholesale customers primarily serve rural areas. According to the Rural Utilities Service, 80 percent of our nation's land is rural. Of the 540 counties with the highest poverty rates, 523 are in rural America. Rural electric systems face daunting challenges. They have low population densities, lack economies of scale, serve residents who are generally older and less affluent and have fewer industrial and commercial electrical customers per residential consumer.

Compared to utilities that serve urban areas, on a per consumer basis, rural electrics:

- ◆ require 22 percent more distribution investment capital
- ◆ incur 31 percent more operating and maintenance costs
- ◆ pay 27 percent more in power delivery costs and
- ◆ earn 45 percent less in operating revenues.

According to the National Rural Electric Cooperative Association, rural electric co-ops serve 11 percent of the market, but they own and maintain 22 percent of the nation's distribution lines. As Wally Beyer, RUS administrator, said succinctly, "It simply costs more money to serve rural consumers."

What I hear consistently from our customer base is that electric utility industry restructuring will have impacts on rural America. The member-owners of the cooperatives, elected officials and electric consumers across the West are taking a keen interest in this issue at both a national and a local level. Our customers and other rural utility member-owners are concerned that the rest of the utility industry, legislators, regulators and others do not recognize that rural America does not have the market characteristics needed to receive full benefit of competition.

Rural America lacks the population concentration and market power of metropolitan areas and areas with large industrial electric customers.

We can also look at the results of deregulation in other essential public services to see how rural America fared. Most deregulation created winners and losers—and rural America has often been on the losing side. Take airline deregulation,

for instance. While passenger boardings are up nationwide, how many small and medium markets have lost airline carriers— or even lost service altogether? Even in large markets, airline deregulation has not necessarily resulted in cheaper fares, more frequent flights or a multitude of competing carriers.

Similar tales abound for other deregulated services. Rural America does not have uniform cellular coverage. I've learned that my cell phone doesn't always operate in the more remote parts of our service area. Very few small-town libraries or public schools have high-speed T-1 lines to access the Internet.

The communications infrastructure is not available to attract commerce, encourage widespread use of telemedicine or provide distance learning opportunities in many small towns across the West.

Many would agree that rural America has not often been a winner when it comes to deregulation.

But national legislation isn't all that's on the horizon for rural electric service providers. Twenty states have enacted electric utility deregulation, 10 have legislation or regulatory activities pending and 17 have studied it. Only three states, Florida, South Dakota and Hawaii, have taken no action related to giving consumers choice in their electrical service provider.

No matter how costs are shifted among states, among consumer groups or among classes of customers as deregulation plays out across the West and across the nation, we must remember that electricity is an essential service for all Americans. As the West was settled, many areas were too sparsely populated and unprofitable for investor-owned utilities to string miles of transmission and distribution lines to serve so few customers.

Our agency predecessor, the Bureau of Reclamation, was created to reclaim the arid deserts and make them bloom by delivering irrigation water to farmers and ranchers. The Rural Electrification Administration was similarly born to bring the benefits of electricity to rural America. Today, many of those same areas are still sparsely populated and a number of questions about providing electrical service for them remain to be answered. We at Western want to be part of the answer.

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